

CITY OF SHELBY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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**CITY OF SHELBY
OFFICIALS**

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|------------------------------|---------------------|
| (Before January 2010) | | |
| Ron Kroll | Mayor | January 2010 |
| Rod Robinson | Mayor Pro-tem/Council Member | January 2010 |
| Craig Davis | Council Member | January 2012 |
| Lucy Schlensig | Council Member | January 2010 |
| Lisa Juhl | Council Member | January 2012 |
| Bob Seitz | Council Member | January 2012 |
| Christie Martin | City Clerk | Indefinite |
| Katie Goshorn | City Attorney | Indefinite |
| Patricia Morris | City Treasurer | Indefinite |
| (After January 2010) | | |
| Lisa Juhl | Mayor | January 2012 |
| Bob Seitz | Mayor Pro-tem/Council Member | January 2012 |
| Rod Robinson | Council Member | January 2012 |
| Craig Davis | Council Member | January 2012 |
| Jim Cunningham | Council Member | January 2014 |
| Kristen Lund | Council Member | January 2014 |
| Christie Martin | City Clerk | Indefinite |
| Katie Goshorn | City Attorney | Indefinite |
| Patricia Morris | City Treasurer | Indefinite |

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

July 22, 2010

Lonnie G. Muxfeldt
Certified Public
Accountant

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

July 22, 2010

To the Honorable Mayor and
Members of the City Council:
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated July 22, 2010 on my consideration of the City of Shelby's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 M. L. Lupton Associate, CPA, P.C.

CITY OF SHELBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

As management of the City of Shelby, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Fund financial statements: The financial statement for governmental funds is the statement of cash receipts, disbursements and changes in cash balances. It is organized by funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment Financing, 3) Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric utilities funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances of the City's governmental activities decreased by \$14,009 or 1.12 percent from June 30, 2009 to June 30, 2010.

The following are the changes in the cash balances of the City's governmental activities:

| Changes in Cash Basis Net Assets of Governmental Activities | | | |
|---|---------------------|-----------|---------------------|
| | Year Ended June 30, | | Year Ended June 30, |
| | 2010 | | 2009 |
| Receipts: | | | |
| Program receipts: | | | |
| Charges for services | \$ | 89,970 | \$ 89,096 |
| Operating grants, contributions and restricted interest | | 88,651 | 78,837 |
| Capital grants, contributions and restricted interest | | 35,199 | 71,667 |
| General receipts: | | | |
| Property tax | | 99,487 | 111,973 |
| Tax increment financing | | 283,957 | 280,309 |
| Local option sales tax | | 42,409 | 44,991 |
| Unrestricted investment earnings | | 3,026 | 4,356 |
| Miscellaneous | | 10 | -0- |
| Sale of property | | 3,000 | -0- |
| Total receipts | | 645,709 | 681,229 |
| Disbursements: | | | |
| Public safety | | 113,448 | 79,611 |
| Public works | | 226,085 | 171,170 |
| Culture and recreation | | 89,484 | 27,035 |
| Community and economic development | | 85,899 | 101,711 |
| General government | | 54,452 | 50,507 |
| Debt service | | 85,184 | 150,281 |
| Capital projects | | 5,166 | 70,686 |
| Total disbursements | | 659,718 | 651,001 |
| Change in cash basis net assets | | (14,009) | 30,228 |
| Cash basis net assets, beginning of year | | 1,240,445 | 1,210,217 |
| Cash basis net assets, end of year | \$ | 1,226,436 | \$ 1,240,445 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash balances of the City's business type activities decreased by \$6,871 or 1.68 percent from June 30, 2009 to June 30, 2010.

The following are the changes in the cash basis of the net assets of the City's business type activities:

| Changes in Cash Basis Net Assets of Business Type Activities | | | |
|--|-----------------------------|----|-----------------------------|
| | Year Ended June 30, 2010 | | Year Ended June 30, 2009 |
| Receipts: | | | |
| Program receipts: | | | |
| Charges for services and sales: | | | |
| Water | \$ 123,706 | \$ | 129,995 |
| Sewer | 53,269 | | 58,675 |
| Electric | 521,985 | | 476,615 |
| Total receipts | 698,960 | | 665,285 |
| Disbursements: | | | |
| Water | 159,191 | | 173,338 |
| Sewer | 37,718 | | 20,598 |
| Electric | 508,922 | | 464,973 |
| Total disbursements | 705,831 | | 658,909 |
| Change in cash basis net assets | (6,871) | | 6,376 |
| Cash basis net assets, beginning of year | 408,584 | | 402,208 |
| Cash basis net assets, end of year | \$ 401,713 | \$ | 408,584 |

Analysis between actual and budget amounts: The City amended its budget on May 4, 2010, increasing both receipts and disbursements by \$61,683 to reflect primarily increases in other city taxes and increases in culture and recreation and community and economic development functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2010, the City had \$791,307 in bonds and other long-term debt compared to \$913,500 as of June 30, 2009, as shown below.

| Outstanding Debt | | | |
|--------------------------|--------------------------------|--------------------------------|--|
| | Year Ended June 30, 2010 | Year Ended June 30, 2009 | |
| General obligation notes | \$ 285,307 | \$ 370,500 | |
| Revenue notes | 506,000 | 543,000 | |
| Total | \$ 791,307 | \$ 913,500 | |

Scheduled principal and interest payments for the year ended June 30, 2010 were \$122,193 and \$41,226, respectively.

Future financial statement impact: Budgeted receipts for FY 2011 are \$1.17 million. Budgeted disbursements are \$1.46 million. The budgeted net decrease to cash balances is \$290,452.

Requests for information: Requests for additional information can be made to the Shelby City Clerk, Christie Martin at City Hall, 419 East Street, Shelby, Iowa 51570.

BASIC FINANCIAL STATEMENTS

CITY OF SHELBY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

| | Disbursements | Charges for Services | Program Receipts | |
|--|---------------|-------------------------|--|--|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions / Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 113,448 | \$ 38,530 | \$ 223 | \$ -0- |
| Public works | 226,085 | 39,664 | 78,548 | -0- |
| Cultures and recreation | 89,484 | -0- | 3,936 | -0- |
| Community and economic development | 85,899 | -0- | -0- | 35,000 |
| General government | 54,452 | 11,776 | 5,944 | -0- |
| Debt service | 85,184 | -0- | -0- | -0- |
| Capital projects | 5,166 | -0- | -0- | 199 |
| Total governmental activities | 659,718 | 89,970 | 88,651 | 35,199 |
| Business type activities: | | | | |
| Water | 159,191 | 123,384 | -0- | -0- |
| Sewer | 37,718 | 52,392 | 778 | 0- |
| Electric | 508,922 | 520,899 | 375 | -0- |
| Total business type activities | 705,831 | 696,675 | 1,153 | -0- |
| Total | \$ 1,365,549 | \$ 786,645 | \$ 89,804 | \$ 35,199 |
| General receipts: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing | | | | |
| Local option sales tax | | | | |
| Unrestricted investment earnings | | | | |
| Miscellaneous | | | | |
| Sale of property | | | | |
| Total general receipts | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets, beginning of year | | | | |
| Cash basis net assets, end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Urban renewal | | | | |
| Debt service | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

EXHIBIT A

| <u>Net (Disbursements), Receipts and Changes in Cash Basis Net Assets</u> | | | | | |
|---|------------------|----------------------|----------------|--------------|------------------|
| <u>Governmental</u> | | <u>Business Type</u> | | <u>Total</u> | |
| <u>Activities</u> | | <u>Activities</u> | | | |
| \$ | (74,695) | \$ | -0- | \$ | (74,695) |
| | (107,873) | | -0- | | (107,873) |
| | (85,548) | | -0- | | (85,548) |
| | (50,899) | | -0- | | (50,899) |
| | (36,732) | | -0- | | (36,732) |
| | (85,184) | | -0- | | (85,184) |
| | (4,967) | | -0- | | (4,967) |
| | <u>(445,898)</u> | | <u>-0-</u> | | <u>(445,898)</u> |
| | -0- | | (35,807) | | (35,807) |
| | -0- | | 15,452 | | 15,452 |
| | -0- | | 12,352 | | 12,352 |
| | <u>-0-</u> | | <u>(8,003)</u> | | <u>(8,003)</u> |
| | (445,898) | | (8,003) | | (453,901) |
| | 93,411 | | -0- | | 93,411 |
| | 6,076 | | -0- | | 6,076 |
| | 283,957 | | -0- | | 283,957 |
| | 42,409 | | -0- | | 42,409 |
| | 3,026 | | 1,032 | | 4,058 |
| | 10 | | 100 | | 110 |
| | 3,000 | | -0- | | 3,000 |
| | <u>431,889</u> | | <u>1,132</u> | | <u>433,021</u> |
| | (14,009) | | (6,871) | | (20,880) |
| | <u>1,240,445</u> | | <u>408,584</u> | | <u>1,649,029</u> |
| \$ | <u>1,226,436</u> | \$ | <u>401,713</u> | \$ | <u>1,628,149</u> |
| | | | | | |
| \$ | 181,143 | \$ | -0- | \$ | 181,143 |
| | 312,734 | | -0- | | 312,734 |
| | -0- | | 51,600 | | 51,600 |
| | <u>732,559</u> | | <u>350,113</u> | | <u>1,082,672</u> |
| \$ | <u>1,226,436</u> | \$ | <u>401,713</u> | \$ | <u>1,628,149</u> |

CITY OF SHELBY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

| | General | Special Revenue | | |
|---|-------------------|-------------------|-------------------|----------------------|
| | | Road Use Tax | Local Option | TIF Urban Renewal |
| Receipts: | | | | |
| Property tax | \$ 93,411 | \$ -0- | \$ -0- | \$ -0- |
| Tax increment financing | -0- | -0- | -0- | 283,957 |
| Other city taxes | 5,418 | -0- | 42,409 | -0- |
| Licenses and permits | 2,075 | -0- | -0- | -0- |
| Use of money and property | 5,396 | -0- | -0- | -0- |
| Intergovernmental | 48,996 | 64,562 | -0- | -0- |
| Charges for service | 46,870 | -0- | -0- | -0- |
| Special assessments | 407 | -0- | -0- | -0- |
| Miscellaneous | 5,357 | -0- | -0- | -0- |
| Total receipts | <u>207,930</u> | <u>64,562</u> | <u>42,409</u> | <u>283,957</u> |
| Disbursements: | | | | |
| Public safety | 113,448 | -0- | -0- | -0- |
| Public works | 90,625 | 135,460 | -0- | -0- |
| Culture and recreation | 54,514 | -0- | 34,970 | -0- |
| Community and economic development | 8,127 | -0- | 53,683 | 24,089 |
| General government | 54,452 | -0- | -0- | -0- |
| Debt service | -0- | -0- | -0- | -0- |
| Capital projects | -0- | -0- | -0- | -0- |
| Total disbursements | <u>321,166</u> | <u>135,460</u> | <u>88,653</u> | <u>24,089</u> |
| Excess (deficiency) of receipts over (under) disbursements | (113,236) | (70,898) | (46,244) | 259,868 |
| Other financing sources (uses): | | | | |
| Sale of property | 3,000 | -0- | -0- | -0- |
| Operating transfer in | -0- | 100,000 | -0- | 30,000 |
| Operating transfer out | (100,000) | -0- | -0- | (79,108) |
| Total other financing sources (uses) | <u>(97,000)</u> | <u>100,000</u> | <u>-0-</u> | <u>(49,108)</u> |
| Net change in cash balances | (210,236) | 29,102 | (46,244) | 210,760 |
| Cash balances, beginning of year | <u>559,722</u> | <u>152,041</u> | <u>269,043</u> | <u>101,974</u> |
| Cash balances, end of year | \$ <u>349,486</u> | \$ <u>181,143</u> | \$ <u>222,799</u> | \$ <u>312,734</u> |

See notes to financial statements.

EXHIBIT B

| <u>Fire Fund</u> | <u>Debt Service</u> | <u>Capital Projects Interstate</u> | <u>Non-major</u> | <u>Total</u> |
|----------------------|-------------------------|--|------------------|---------------------|
| \$ -0- | \$ 6,076 | \$ -0- | \$ -0- | \$ 99,487 |
| -0- | -0- | -0- | -0- | 283,957 |
| -0- | -0- | -0- | -0- | 47,827 |
| -0- | -0- | -0- | -0- | 2,075 |
| 164 | -0- | 199 | 89 | 5,848 |
| 14,366 | -0- | -0- | -0- | 127,924 |
| -0- | -0- | -0- | 22,957 | 69,827 |
| -0- | -0- | -0- | -0- | 407 |
| -0- | -0- | -0- | -0- | 5,357 |
| <u>14,530</u> | <u>6,076</u> | <u>199</u> | <u>23,046</u> | <u>642,709</u> |
| -0- | -0- | -0- | -0- | 113,448 |
| -0- | -0- | -0- | -0- | 226,085 |
| -0- | -0- | -0- | -0- | 89,484 |
| -0- | -0- | -0- | -0- | 85,899 |
| -0- | -0- | -0- | -0- | 54,452 |
| -0- | 85,184 | -0- | -0- | 85,184 |
| -0- | -0- | 5,166 | -0- | 5,166 |
| <u>-0-</u> | <u>85,184</u> | <u>5,166</u> | <u>-0-</u> | <u>659,718</u> |
| 14,530 | (79,108) | (4,967) | 23,046 | (17,009) |
| -0- | -0- | -0- | -0- | 3,000 |
| -0- | 79,108 | -0- | -0- | 209,108 |
| -0- | -0- | (30,000) | -0- | (209,108) |
| <u>-0-</u> | <u>79,108</u> | <u>(30,000)</u> | <u>-0-</u> | <u>3,000</u> |
| 14,530 | -0- | (34,967) | 23,046 | (14,009) |
| <u>95,011</u> | <u>-0-</u> | <u>44,970</u> | <u>17,684</u> | <u>1,240,445</u> |
| \$ <u>109,541</u> | \$ <u>-0-</u> | \$ <u>10,003</u> | \$ <u>40,730</u> | \$ <u>1,226,436</u> |

CITY OF SHELBY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

| | Enterprise | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Water | Sewer | Electric | Total |
| Operating receipts: | | | | |
| Charges for services | \$ 121,910 | \$ 52,491 | \$ 519,474 | \$ 693,875 |
| Operating disbursements: | | | | |
| Business type activities | <u>103,194</u> | <u>37,718</u> | <u>508,922</u> | <u>649,834</u> |
| Excess (deficiency) of operating receipts over (under) operating Disbursements | 18,716 | 14,773 | 10,552 | 44,041 |
| Non-operating receipts (disbursements) | | | | |
| Customer deposits | 1,474 | -0- | 1,425 | 2,899 |
| Debt service | (55,997) | -0- | -0- | (55,997) |
| Interest on investments | <u>322</u> | <u>778</u> | <u>1,086</u> | <u>2,186</u> |
| Net non-operating | <u>(54,201)</u> | <u>778</u> | <u>2,511</u> | <u>(50,912)</u> |
| Net change in cash balances | (35,485) | 15,551 | 13,063 | (6,871) |
| Cash balances, beginning of year | <u>695</u> | <u>129,288</u> | <u>278,601</u> | <u>408,584</u> |
| Cash balances, end of year | \$ <u>(34,790)</u> | \$ <u>144,839</u> | \$ <u>291,664</u> | \$ <u>401,713</u> |

NOTES TO FINANCIAL STATEMENTS

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Shelby is a political subdivision of the State of Iowa located in Shelby and Pottawattamie Counties. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shelby has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Government Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for street maintenance.

The Local Option Sales Tax Fund is used to account for special purposes as determined by City Council.

The Urban Renewal Fund is used to account for tax increment financing receipts.

The Fire Fund is used to account for resources accumulated for use by the fire department.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Capital Projects Fund is used to account for capital projects such as the Interstate project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric utility.

C. Measurement Focus and Basis of Accounting

The City of Shelby maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation and community and economic development functions.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the City's deposits consisted of cash in bank and certificates of deposit as follows:

| | | |
|-------------------------|----|----------------|
| Cash in bank | \$ | 343,416 |
| Certificates of deposit | | <u>155,403</u> |
| Total | \$ | <u>498,819</u> |

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,129,330 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation note and bonds and water revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | |
|----------------------------|--------------------------|------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 88,384 | \$ 10,906 | \$ 39,000 | \$ 17,996 |
| 2012 | 93,929 | 7,493 | 40,000 | 16,615 |
| 2013 | 34,497 | 3,836 | 41,000 | 15,198 |
| 2014 | 15,087 | 2,465 | 43,000 | 13,745 |
| 2015 | 15,702 | 1,851 | 44,000 | 12,222 |
| 2016 | 16,342 | 1,211 | 45,000 | 10,663 |
| 2017 | 17,007 | 545 | 48,000 | 10,069 |
| 2018 | 4,359 | 30 | 49,000 | 7,369 |
| 2019 | -0- | -0- | 51,000 | 5,633 |
| 2020 | -0- | -0- | 53,000 | 3,825 |
| 2021 | -0- | -0- | 53,000 | 1,948 |
| Total | \$ <u>285,307</u> | \$ <u>28,337</u> | \$ <u>506,000</u> | \$ <u>115,283</u> |

| Year Ending June 30, | Total | |
|----------------------------|-------------------|-------------------|
| | Principal | Interest |
| 2011 | \$ 127,384 | \$ 28,902 |
| 2012 | 133,929 | 24,108 |
| 2013 | 75,497 | 19,034 |
| 2014 | 58,087 | 16,210 |
| 2015 | 59,702 | 14,073 |
| 2016 | 61,342 | 11,874 |
| 2017 | 65,007 | 10,614 |
| 2018 | 53,359 | 7,399 |
| 2019 | 51,000 | 5,633 |
| 2020 | 53,000 | 3,825 |
| 2021 | 53,000 | 1,948 |
| Total | \$ <u>791,307</u> | \$ <u>143,620</u> |

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(3) Bonds and Notes Payable (Continued)

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- b) Sufficient month transfers shall be made to a water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

Rural Economic Development Loan

The City of Shelby is the guarantor of a loan between the Shelby Economic Development Corporation and the Nishnabotna Valley Rural Development Corporation of Harlan, Iowa. The purpose of the \$120,000 loan was to finance dirt work, grading and further development of the Industrial Park site in Shelby, Iowa. The ten year loan has an interest rate ceiling of 4.00% and deferral period of two years from the date of the loan. The Nishnabotna Valley Rural Development Corporation holds the mortgage on the ten acre Industrial Park site. As of October 10, 2009, the City of Shelby makes monthly interest and principal payments of \$1,463 on the loan as guarantor of the Shelby Economic Development Corporation.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement system (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$7,319, \$6,629, and \$6,007, respectively, equal to the required contribution for each year.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$295 for single coverage and \$739 for family coverage. For the year ended June 30, 2010, the City contributed \$15,025 and plan member eligible for benefits contributed \$2,705 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave hours accumulate but are not payable upon termination. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2010, primarily relating to the Water Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-----------------|
| Vacation | \$ 3,970 |
| Compensatory time | <u>-0-</u> |
| Total | \$ <u>3,970</u> |

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,133 during the year ended June 30, 2010.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

| Transfer to | Transfer from | Amount |
|----------------------------|-----------------------|-------------------|
| Special Revenue - Road Use | General | \$ 100,000 |
| Special Revenue - TIF | Capital Projects | 30,000 |
| Debt Service | Special Revenue - TIF | <u>79,108</u> |
| Total | | \$ <u>209,108</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.07 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members included various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of the deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(10) Risk Management (Continued)

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$11,450.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$365,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims, exhausts total members' equity plus and reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settle claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(11) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2010, disbursements in the public works and community and economic development functions exceeded amounts budgeted.

(12) Deficit Balance

The Water Fund had a deficit balance of \$34,790 at June 30, 2010.

(13) Litigation

The City is subject to pending litigation seeking compensatory damages as the result of a minor traffic accident involving a City employee. The probability of loss, if any, is undeterminable.

(14) Statistical Information

| | For the year ended June 30, 2010 | |
|----------------------------------|-------------------------------------|-------------|
| Gallons of water billed | 22,048,118 | 84% |
| Gallons of water unaccounted for | 4,112,882 | 16% |
| Gallons of water pumped | <u>26,161,000</u> | <u>100%</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELBY
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY
FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

| | Governmental Funds Actual | Proprietary Funds Actual |
|---|---------------------------------|--------------------------------|
| Receipts: | | |
| Property tax | \$ 99,487 | \$ -0- |
| Tax increment financing | 283,957 | -0- |
| Other city tax | 47,827 | -0- |
| Licenses and permits | 2,075 | -0- |
| Use of money and permits | 5,848 | 2,186 |
| Intergovernmental | 127,924 | -0- |
| Charges for services | 69,827 | 696,774 |
| Special assessments | 407 | -0- |
| Miscellaneous | 5,357 | -0- |
| Total receipts | <u>642,709</u> | <u>698,960</u> |
| Disbursements: | | |
| Public safety | 113,448 | -0- |
| Public works | 226,085 | -0- |
| Culture and recreation | 89,484 | -0- |
| Community and economic development | 85,899 | -0- |
| General government | 54,452 | -0- |
| Debt service | 85,184 | -0- |
| Capital projects | 5,166 | -0- |
| Business type activities | -0- | 705,831 |
| Total disbursements | <u>659,718</u> | <u>705,831</u> |
| Excess (deficiency) of receipts over (under) disbursements | (17,009) | (6,871) |
| Other financing sources, net | <u>3,000</u> | <u>-0-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (14,009) | (6,871) |
| Balances beginning of year | <u>1,240,445</u> | <u>408,584</u> |
| Balances end of year | \$ <u><u>1,226,436</u></u> | \$ <u><u>401,713</u></u> |

See Accompanying Independent Auditor's Report.

| | | Budgeted Amounts | | Final to |
|-------|------------------|---------------------|---------------------|-------------------|
| Total | | Original | Final | Total Variance |
| \$ | 99,487 | \$ 102,958 | \$ 102,958 | \$ (3,471) |
| | 283,957 | 310,000 | 310,000 | (26,043) |
| | 47,827 | 45,751 | 99,434 | (51,607) |
| | 2,075 | 1,500 | 1,500 | 575 |
| | 8,034 | 49,100 | 49,100 | (41,066) |
| | 127,924 | 71,380 | 71,380 | 56,544 |
| | 766,601 | 670,000 | 670,000 | 96,601 |
| | 407 | 2,000 | 2,000 | (1,593) |
| | 5,357 | 11,000 | 11,000 | (5,643) |
| | <u>1,341,669</u> | <u>1,263,689</u> | <u>1,317,372</u> | <u>24,297</u> |
| | 113,448 | 120,200 | 120,200 | 6,752 |
| | 226,085 | 246,000 | 246,000 | 19,915 |
| | 89,484 | 50,550 | 58,550 | (30,934) |
| | 85,899 | 8,000 | 61,683 | (24,216) |
| | 54,452 | 84,150 | 84,150 | 29,698 |
| | 85,184 | 87,986 | 87,986 | 2,802 |
| | 5,166 | 90,000 | 90,000 | 84,834 |
| | 705,831 | 836,980 | 836,980 | 131,149 |
| | <u>1,365,549</u> | <u>1,523,866</u> | <u>1,585,549</u> | <u>220,000</u> |
| | (23,880) | (260,177) | (268,177) | 244,297 |
| | <u>3,000</u> | <u>-0-</u> | <u>8,000</u> | <u>(5,000)</u> |
| | (20,880) | (260,177) | (260,177) | 239,297 |
| | <u>1,649,029</u> | <u>1,649,029</u> | <u>1,649,029</u> | <u>-0-</u> |
| \$ | <u>1,628,149</u> | \$ <u>1,388,852</u> | \$ <u>1,388,852</u> | \$ <u>239,297</u> |

CITY OF SHELBY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$61,683. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation and community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SHELBY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

| | Special Revenue | | | | |
|---|----------------------------------|-----------------------------|-------------------------|-------------------|-----------|
| | Ed Nelson Scholarship Fund | Nielsen Memorial Fund | Economic Development | Ambulance Fund | Total |
| Receipts: | | | | | |
| Use of money and property | \$ 19 | \$ 10 | \$ -0- | \$ 60 | \$ 89 |
| Charges for services | -0- | -0- | -0- | 22,957 | 22,957 |
| Total receipts | 19 | 10 | -0- | 23,017 | 23,046 |
| Disbursements: | | | | | |
| Operations: | | | | | |
| Culture and recreation | -0- | -0- | -0- | -0- | -0- |
| Community and economic dev | -0- | -0- | -0- | -0- | -0- |
| Total disbursements | -0- | -0- | -0- | -0- | -0- |
| Excess (deficiency) of receipts over (under) disbursements | 19 | 10 | -0- | 23,017 | 23,046 |
| Other financing sources | | | | | |
| Operating transfer in | -0- | -0- | -0- | -0- | -0- |
| Net change in cash balances | 19 | 10 | -0- | 23,017 | 23,046 |
| Cash balances beginning of year | 3,150 | 1,447 | (747) | 13,834 | 17,684 |
| Cash balances end year | \$ 3,169 | \$ 1,457 | \$ (747) | \$ 36,851 | \$ 40,730 |

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010**

| | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|---------------------------------|--------------------------|---------------------------|---|
| <u>Obligation</u> | | | |
| General Obligation: | | | |
| Fire Truck Bond | Apr 1, 2000 | 5.80% | \$ 55,000 |
| Interstate Project Sewer Bond | Sep 14, 2006 | 3.74% - 3.90% | \$ 500,000 |
| Rural Economic Development Loan | Sep 10, 2007 | 4.00% | \$ 120,000 |
| Revenue Bonds: | | | |
| Water Revenue Bond | Apr 1, 2001 | 3.53% | \$ 600,000 |
| Water Improvement Bond | Oct 19, 2001 | 3.53% | \$ 200,000 |

SCHEDULE 2

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 5,500 | \$ -0- | \$ 5,500 | \$ -0- | \$ 325 | \$ -0- |
| 245,000 | | 70,000 | 175,000 | 9,359 | 561 |
| 120,000 | -0- | 9,693 | 110,307 | 13,085 | 245 |
| 409,000 | -0- | 28,000 | 381,000 | 14,437 | 1,121 |
| <u>134,000</u> | <u>-0-</u> | <u>9,000</u> | <u>125,000</u> | <u>4,020</u> | <u>313</u> |
| \$ <u>913,500</u> | \$ <u>-0-</u> | \$ <u>122,193</u> | \$ <u>791,307</u> | \$ <u>41,226</u> | \$ <u>2,240</u> |

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2010**

General Obligation Bonds

| Year Ended June 30, | Rural Economic Development Loan | | Interstate Project Sewer Bond | | Total |
|---------------------------|------------------------------------|------------|----------------------------------|------------|------------|
| | Issued Sep 10, 2007 | | Issued Sep 14, 2006 | | |
| | Interest Rate | Amount | Interest Rate | Amount | |
| 2011 | 4.00% | \$ 13,384 | 3.85% | \$ 75,000 | \$ 88,384 |
| 2012 | 4.00% | 13,929 | 3.87% | 80,000 | 93,929 |
| 2013 | 4.00% | 14,497 | 3.90% | 20,000 | 34,497 |
| 2014 | 4.00% | 15,087 | -- | -0- | 15,087 |
| 2015 | 4.00% | 15,702 | -- | -0- | 15,702 |
| 2016 | 4.00% | 16,342 | -- | -0- | 16,342 |
| 2017 | 4.00% | 17,007 | -- | -0- | 17,007 |
| 2018 | 4.00% | 4,359 | -- | -0- | 4,359 |
| Total | | \$ 110,307 | | \$ 175,000 | \$ 285,307 |

Revenue Bonds

| Year Ended June 30, | Water Revenue Bond | | Water Improvement Bond | | Total |
|---------------------------|--------------------|------------|------------------------|------------|------------|
| | Issued Apr 1, 2001 | | Issued Oct 19, 2001 | | |
| | Interest Rate | Amount | Interest Rate | Amount | |
| 2011 | 3.53% | \$ 29,000 | 3.53% | \$ 10,000 | \$ 39,000 |
| 2012 | 3.53% | 30,000 | 3.53% | 10,000 | 40,000 |
| 2013 | 3.53% | 31,000 | 3.53% | 10,000 | 41,000 |
| 2014 | 3.53% | 32,000 | 3.53% | 11,000 | 43,000 |
| 2015 | 3.53% | 33,000 | 3.53% | 11,000 | 44,000 |
| 2016 | 3.53% | 34,000 | 3.53% | 11,000 | 45,000 |
| 2017 | 3.53% | 36,000 | 3.53% | 12,000 | 48,000 |
| 2018 | 3.53% | 37,000 | 3.53% | 12,000 | 49,000 |
| 2019 | 3.53% | 38,000 | 3.53% | 13,000 | 51,000 |
| 2020 | 3.53% | 40,000 | 3.53% | 13,000 | 53,000 |
| 2021 | 3.53% | 41,000 | 3.53% | 12,000 | 53,000 |
| Total | | \$ 381,000 | | \$ 125,000 | \$ 506,000 |

See Accompanying Independent Auditors' Report.

CITY OF SHELBY

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS

| | 2010 | 2009 | 2008 | 2007 |
|---------------------------|-------------------|-------------------|---------------------|---------------------|
| Receipts: | | | | |
| Property tax | \$ 99,487 | \$ 111,973 | \$ 93,862 | \$ 78,458 |
| Tax Increment Financing | 283,957 | 280,309 | 27,855 | 71,776 |
| Other city taxes | 47,827 | 48,846 | 46,200 | 35,700 |
| Licenses and permits | 2,075 | 1,206 | 2,728 | 993 |
| Use of money and property | 5,848 | 14,826 | 32,893 | 41,218 |
| Intergovernmental | 127,924 | 148,547 | 1,260,960 | 427,174 |
| Charges for services | 69,827 | 58,066 | 58,697 | 42,882 |
| Special assessments | 407 | 3,000 | 7,100 | 4,050 |
| Miscellaneous | 5,357 | 14,456 | 27,642 | 36,538 |
| Total | \$ <u>642,709</u> | \$ <u>681,229</u> | \$ <u>1,557,937</u> | \$ <u>738,789</u> |
| Disbursements: | | | | |
| Public safety | \$ 113,448 | \$ 79,611 | \$ 55,512 | \$ 67,563 |
| Public works | 226,085 | 171,170 | 185,612 | 86,349 |
| Culture and recreation | 89,484 | 27,035 | 12,008 | 44,990 |
| Economic development | 85,899 | 101,711 | 148,769 | 151,450 |
| General government | 54,452 | 50,507 | 118,648 | 87,726 |
| Debt service | 85,184 | 150,281 | 87,916 | 6,773 |
| Capital projects | 5,166 | 70,686 | 1,118,127 | 575,550 |
| Total | \$ <u>659,718</u> | \$ <u>651,001</u> | \$ <u>1,726,592</u> | \$ <u>1,020,401</u> |

See Accompanying Independent Auditor's Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

July 22, 2010

Lonnie G. Muxfeldt

Certified Public
Accountant

Harlan Office:

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated July 22, 2010. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Shelby's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion of the effectiveness of the City of Shelby's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Shelby's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

Continued. . .

Member of American Institute of Certified Public Accountants,
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July 22, 2010

To the Honorable Mayor and
Members of the City Council:
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A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shelby's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-B-10 and II-C-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

The City of Shelby's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Shelby's responses and, accordingly, I express no opinion on them.

Continued. . .

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To the Honorable Mayor and
Members of the City Council:
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This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shelby and other parties to whom the City of Shelby may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Shelby during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

M. L. Lupton Associates, CPA, P.C.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART I: Summary of the Independent Auditor's Results

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

II-A-10 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that with only one full-time clerk and a part-time office employee, segregation of duties among employees is impossible. The City should review its control procedures to obtain the maximum internal control possible under the circumstances. For example, the part-time employee also serves as the City Treasurer and could easily review the receipts listings, bank deposits and postings to ensure procedures are being followed. On the disbursement side, the City Treasurer could review the claims list for completeness and City Council could sign the claims list as an indication of its supervision and approval.

Response - The recommended procedures are easily implemented without additional personnel. We will review our control procedures to incorporate the City Treasurer and City Council in a supervisory role.

Conclusion - Response accepted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART II: Findings Related to the Financial Statements (Continued)

II-B-10 Overstatement of Savings Account Balances

Comment - The City's financial records overstated interest, fees and savings account balances by \$47,634. The overstatement was identified and corrected.

Recommendation - Transactions affecting savings accounts should be recorded as statements are received. General ledger balances should be compared to statements before filing them away.

Response - Procedures will be adopted as recommended.

Conclusion - Response accepted.

II-C-10 Unrecorded Transfer

Comment - It was noted that a \$79,108 transfer from the urban renewal fund to the debt service fund was not recorded for the year ended June 30, 2010. The oversight resulted in a potential deficit balance in the debt service fund. Adjustments were subsequently made to correctly report transfers and fund balances in the City's financial statements.

Recommendation - Tax increment financing funds the payments of principal and interest on the general obligation sewer bonds of the Interstate Project. Amounts equivalent to the principal and interest payments should be transferred to the debt service fund each year. Transfers should always be approved by Council resolution.

Response - The transfer was authorized by City Council but was inadvertently not recorded on the City's books. Authorized transfers will be recorded in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART III Other Findings Related to Statutory Reporting

- III-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the culture and recreation and community and economic development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will be amended in the future, if applicable.

Conclusion - Response accepted.

- III-B-10 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|--|----------------------------|--------|
| Ron Kroll, Mayor, Owner Kroll Construction | Equipment rental | \$ 840 |
| Lucy Schlensig, Councilor, Spouse of owner of Larry's Autocraft & Repair | Repairs | \$ 293 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and the Councilor do not appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

- III-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

PART III: Other Findings Related to Statutory Reporting (Continued)

III-F-10 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

III-G-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. It was noted, however, that the City of Shelby has not adopted an investment policy.

Recommendation - An example of an investment policy adopted by other Cities has been provided to City officials for its perusal, adaption and adoption.

Response - The City of Shelby's unwritten investment policy has served the City well over the years. The City will formalize its unwritten investment policy by adopting a written investment policy.

Conclusion - Response accepted.

III-H-10 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

III-I-10 Financial Condition - The Capital Projects Fund had a deficit balance of \$34,790 at June 30, 2010.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - City Council will be investigating a water rate increase or other measures to reduce the water deficit during the year ending June 30, 2011.

Conclusion - Response accepted.

CITY OF SHELBY
SHELBY, IOWA 51570
NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa, today released an audit report on the City of Shelby, Iowa.

The City's receipts totaled \$1,344,669 for the year ended June 30, 2010, a 0.13 percent decrease from 2009. The receipts included \$99,487 in property tax, \$283,957 from tax increment financing, \$786,645 from charges for services, \$89,804 from operating grants, contributions and restricted interest, \$35,199 from capital grants, contributions and restricted interest, \$42,409 for local option sales tax, \$4,058 from unrestricted interest on investments and \$3,110 from other miscellaneous receipts.

Disbursements for the year totaled \$1,365,549, a 4.24 per cent decrease from the prior year, and included \$226,085 for public works, \$113,448 for public safety, and \$89,484 for culture and recreation. Also, disbursements for business type activities totaled \$705,831.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

